

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 ISO-00 CAB-09 CIAE-00 COME-00 DODE-00

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R 161453Z MAY 74

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 3479

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E.O. 11652: N/A

TAGS: ETRN, CA

SUBJECT: CIVAIR- FOREIGN GOVERNMENT SUBSIDIES TO FOREIGN AIRLINES

REF: STATE 079306/1

EMBASSY HAS REVIEWED SITUATION IN CANADA AND CALLS
ATTENTION TO FOLLOWING:

A. AIR CANADA (CROWN CORPORATION) IS WHOLLY-OWNED
SUBSIDIARY OF CANADIAN NATIONAL RAILWAYS COMPANY. UNTIL
RECENTLY, IT OBTAINED FINANCING THROUGH ISSUANCE OF CNR
BONDS. WITH PASSAGE OF BILL C-5 (WHICH RECEIVED ROYAL
ASSENT APRIL 25, 1974), AIR CANADA IS ABLE TO FLOAT ITS
OWN DEBENTURES AND THEY WILL BE GUARANTEED BY GOC.
ON APRIL 3 (HANSARD P. 1137), FINANCE MINISTER TURNER
EXPLAINED NEW FINANCING AS FOLLOWS:

QUOTE. ONE OF THE PURPOSES OF THE BILL IS TO ALLOW
AIR CANADA... TO BORROW FROM THE GOVERNMENT AT INTEREST
RATES MUCH LOWER THAN THE COMMERCIAL ONES. IN FACT,
THEY BORROW FROM THE GOVERNMENT AT AN INTEREST
RATE EQUIVALENT TO THE ONE PAID BY THE GOVERNMENT
ON TREASURY BILLS PLUS A PROVISION FOR
ADMINISTRATION COSTS. END QUOTE.

(A COPY OF BILL C-5, IN REPORT STAGE VERSION,
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IS BEING FORWARDED TO EB/OA/AVP-ORTMAN; HANSARD IS

AVAILABLE AT EUR/CAN). A QUICK LOOK AT CANADIAN INTEREST RATE STRUCTURE EARLY THIS MONTH SHOWS THAT GOC PAID 8.12 PERCENT FOR 182-DAY TREASURY BILLS. PRIME COMMERCIAL PAPER IN SAME PERIOD (E.G. GENERAL MOTORS ACCEPTANCE CORPORATION) AVERAGED 8.5 PERCENT, WITH SOME RUNNING AS HIGH AS 11 PERCENT. RATE OF SUBSIDIZATION, THEREFORE, WOULD BE DIFFERENCE BETWEEN TREASURY BILL AND PRIME COMMERCIAL PAPER RATE.

B. TO EXTENT THAT AIRCRAFT PURCHASES ARE FINANCED BY EXPORT-IMPORT BANK AT 7 PERCENT (6 PERCENT BEFORE FEBRUARY 1, 1974), US BECOMES SIGNIFICANT SUBSIDIZER OF AIR CANADA.

C. PETROLEUM PRODUCT PRICES AND THIS APPARENTLY INCLUDES JET FUEL. MOT SOURCES HAVE INDICATED FOREIGN AIR CARRIERS (INCLUDING US ON TRANSBORDER SERVICES) TAKE ON MAXIMUM AMOUNTS OF FUEL IN CANADA. PRESUMABLY AIR CANADA ALSO MAXIMIZES ITS FUEL FROM DOMESTIC SOURCES. HOWEVER, WHEN INQUIRIES MADE TO MOT RECENTLY, IN CONTEXT IATA FARE INCREASE QUESTION, OFFICIALS INDICATED THEY DID NOT KNOW WHAT PRICE AIR CANADA WAS PAYING ON AVERAGE FOR FUEL.
PORTER

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